

**BUILDING FAMILIES**

**FINANCIAL REPORT**

**June 30, 2014**

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## OFFICIALS

NAME	MEMBER	COUNTY
Doug Bailey	Chairperson	Hamilton
Marie Johnson	Member	Hamilton
Justin Kroona	Member	Hamilton
Carl Mattes	Member	Humboldt
Angie Halfwassen	Member	Humboldt
Tony Beach	Member	Humboldt
Aaron Burnett	Member	Humboldt
Abby Helgevold	Vice Chairperson	Wright
Karl Helgevold	Member	Wright
Kelly Sayer	Member	Wright
Elisabeth Neighbor	Member	Wright
Michelle Walters	Director	



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Building Families  
Webster City, IA

**Report on the Financial Statements**

We have audited the accompanying financial statements of Building Families (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Building Families as of June 30, 2014, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Scharr & Company, LLP*

Fort Dodge, Iowa  
January 31, 2015

## **BUILDING FAMILIES**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Building Families provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Organization's financial statements, which follow.

#### **FINANCIAL HIGHLIGHTS**

- ◆ The Organization's operating revenues were \$615,693, with \$372,866 and \$56,400 coming from School Ready and Early Childhood Funds, respectively.
- ◆ The Organization's operating expenses were \$613,238, resulting in a \$2,455 increase in net assets.
- ◆ The Organization's net assets increased 1% from June 30, 2013 to June 30, 2014.

#### **USING THIS ANNUAL REPORT**

Building Families is a nonprofit organization and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Building Families' basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Organization's financial activities.

The Statement of Financial Position presents information on the Organization's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The Statement of Activities is the basic statement of activities for the Organization. This statement presents information on the Organization's operating revenues and expenses and whether the Organization's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Organization's cash during the year. This information can assist readers of the report in determining how the Organization financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

#### **CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Organization's finances and to illustrate the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Building Families, 120 1<sup>st</sup> Avenue NW, Suite 14, Clarion, Iowa 50525.

## BUILDING FAMILIES

### STATEMENT OF FINANCIAL POSITION June 30, 2014

<b>ASSETS</b>	
Cash	\$ 177,845
Investments	106,619
Accounts receivable	<u>67,944</u>
<b>Total assets</b>	<u><u>\$ 352,408</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
Accounts payable	\$ 58,367
Deferred revenue	<u>67,696</u>
<b>Total liabilities</b>	<u>126,063</u>
 Net Assets	
Unrestricted:	
Designated by the governing board:	
Endowment fund	79,599
Undesignated	<u>119,726</u>
	199,325
Temporarily restricted	1,520
Permanently restricted	<u>25,500</u>
<b>Total net assets</b>	<u>226,345</u>
 <b>Total liabilities and net assets</b>	 <u><u>\$ 352,408</u></u>

See Notes to Financial Statements.

## BUILDING FAMILIES

### STATEMENT OF ACTIVITIES For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Grants and Other Support:				
Grants	\$ 589,469	\$ -	\$ -	\$ 589,469
Contributions	686	-	500	1,186
Investment income, net unrealized gains of \$3,834	6,056	1,520	-	7,576
Miscellaneous other revenue	17,462	-	-	17,462
	613,673	1,520	500	615,693
Expenses:				
Program services:				
School Ready	373,187	-	-	373,187
Early Childhood	56,470	-	-	56,470
Other	183,581	-	-	183,581
	613,238	-	-	613,238
Transfers	(25,000)	-	25,000	-
<b>Change in net assets</b>	(24,565)	1,520	25,500	2,455
Net assets, beginning of year	223,890	-	-	223,890
Net assets, end of year	\$ 199,325	\$ 1,520	\$ 25,500	\$ 226,345

See Notes to Financial Statements.



## **BUILDING FAMILIES**

### **STATEMENT OF CASH FLOWS For the Year Ended June 30, 2014**

<b>Cash Flows from Operating Activities:</b>	
Increase in net assets	\$ 2,455
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Effect of changes in:	
Accounts receivable	(35,510)
Accounts payable	14,972
Deferred revenue	19,082
<b>Net cash provided by operating activities</b>	<b>999</b>
<b>Cash Flows from Investing Activities:</b>	
Purchase of investments	(106,619)
<b>Net cash (used in) investing activities</b>	<b>(106,619)</b>
<b>Net decrease in cash</b>	<b>(105,620)</b>
<b>Cash:</b>	
Beginning	283,465

## BUILDING FAMILIES

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies and Nature of Activities

**Nature of activities:** Building Families (Organization) is an Iowa corporation which was organized as a nonprofit corporation under the provisions of Chapter 504A of the Code of Iowa. Building Families is the early childhood initiative in Hamilton, Humboldt, and Wright Counties. In the summer of 1999, Building Families developed an early childhood plan that addresses the needs of children aged 0-5. The plan establishes a continuum of services that enhances healthy children, provides children the necessary components to be ready to succeed in school, develops safe and supportive communities, secure and nurturing families and secure and nurturing child care environments. The Organization's revenue is primarily from the Iowa Department of Human Services and Iowa Department of Education.

#### A summary of the Organization's significant accounting policies follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and donor restricted funds: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions not restricted by donors are recorded as revenue in the unrestricted fund.

Revenue recognition and deferred revenue: Grant revenues are recognized in income as funds are expended for the purpose designated by the related grants. Therefore, deferred revenue consists of grant funds received, but not yet expended.

Income taxes: The Organization is exempt from Federal and State income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income tax has been made in the financial statements.

Subsequent events: Subsequent events have been evaluated through January 31, 2015, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

#### Note 2. Economic Dependency

The Organization received 96% of its revenue from government agencies that included the Iowa Department of Health and Iowa Department of Education.

## NOTES TO FINANCIAL STATEMENTS

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### Note 3. Functional Expenses

The Organization expenses by function are as follows:

Program services	\$ 583,435
General and administrative	29,803
	<u>\$ 613,238</u>

### Note 4. Leases

The Organization leases office space in Clarion, Iowa, under a noncancellable lease expiring December 31, 2018. The lease calls for monthly payments of \$1,000. The Organization also leases a copier under a noncancellable lease expiring October 31, 2017. The lease calls for monthly payments of \$82.

Minimum future rental payments under noncancellable operating leases at June 30, 2014 are as follows:

Years ending June 30,	
2015	\$ 12,981
2016	12,981
2017	12,981
2018	12,245
2019	<u>6,000</u>
	<u>\$ 57,188</u>

The lease expense for the year ended June 30, 2014 was \$12,981.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Early Childhood

The Organization is the fiscal agent for School Ready Children Services and Early Childhood Program funds for Hamilton, Humboldt and Wright counties. The following financial data is for the year ended June 30, 2014:

	Early Childhood Fund (Federal)	Early Childhood Fund (State)	School Ready Fund	Total
<b>Additions:</b>				
State of Iowa grants:				
Early childhood	\$ -	\$ 57,746	\$ -	\$ 57,746
Family support and parent education	-	-	210,107	210,107
Preschool support for low-income families	-	-	92,252	92,252
Quality improvement	-	-	51,250	51,250
Allocation for administration	-	3,039	11,616	14,655
Other grant programs	-	-	22,338	22,338
<b>Total State of Iowa grants</b>	-	60,785	387,563	448,348
Interest	-	70	321	391
<b>Total additions</b>	-	60,855	387,884	448,739
<b>Deductions:</b>				
Program services:				
Early childhood	2	53,454	-	53,456
Family support and parent education	-	-	207,617	207,617
Preschool support for low-income families	-	-	86,852	86,852
Quality improvement	-	-	51,103	51,103
Other grant programs	-	-	16,313	16,313
<b>Total program services</b>	2	53,454	361,885	415,341
Administration	-	3,014	11,302	14,316
<b>Total deductions</b>	2	56,468	373,187	429,657
Net change	(2)	4,387	14,697	19,082
Deferred revenue, beginning of year	2	-	48,612	48,614
Deferred revenue, end of year	\$ -	\$ 4,387	\$ 63,309	\$ 67,696

## NOTES TO FINANCIAL STATEMENTS

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### **Note 6. Investments**

ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of quoted prices of similar assets or liabilities in active markets or quoted prices for identical or similar assets in inactive markets, and Level 3 inputs have the lowest priority.

The organization's investments are carried at fair value using Level 1 inputs and investment gains and losses are reflected in the statement of activities. The fair value is based on quoted prices in active markets for identical assets.

The organization's investments consist of the long-term growth portfolio which seeks maximum growth and controlled risk through a diversified portfolio of global stocks, bonds and alternative strategies.

The organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balance. For liquidity purposes, the substantial portion of the organizations' investment holdings are due to mature within a three-year period.

### **Note 7. Endowment Funds**

ASC Topic 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The literature also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The State of Iowa enacted a form of UPMIFA (SPMIFA) effective July, 2008, the provision of which apply to endowment funds existing on or established after that date.

Building Families endowment consists of individual gifts established to fund and support the mission of Building Families. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Endowment Funds (Continued)

The Board of Directors of Building Families has interpreted SPMIFA, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Building Families classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Building Families in a manner consistent with the standard of prudence prescribed by SPMIFA. Further, the governing board has internally designated a portion of the unrestricted net assets as a board-designated endowment.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources to Building Families, and (7) Building Families' policy pertaining to the investment and distribution of endowment funds.

Building Families has adopted an investment management policy for endowment assets. The investment management policy sets forth that the responsibility for investment management of endowed funds has been delegated by contract, solely to the Community Foundation of Greater Des Moines. The Community Foundation of Greater Des Moines and its Board of Directors has adopted a Statement of Investment Policy providing direction for the investment of endowed funds.

The underlying investment policy of the endowment fund is within the objective of achieving long-term asset appreciation. The investment policy establishes an achievable return objective through diversification of asset classes. The current performance expectation of the endowment fund's assets is a long-term, total rate of return on assets that is equal to or in excess of a 5% spending rate, anticipated inflation, investment management fees, administrative costs, and a growth factor as established from time to time. The target rate of return for the fund's investment assets is based on the assumption that future real returns will approximate or exceed the indexed rates of return experience for each asset class. To satisfy the long-term rate-of-return objectives, a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) is relied upon. A diversified asset allocation is targeted and it places an emphasis on fixed income, equity, and alternative investments to achieve its long-term return objectives within prudent risk parameters.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ 25,500	\$ 1,520	\$ -	\$ 27,020
Board Designated endowment funds	-	-	79,599	79,599
<b>Total funds</b>	<b>\$ 25,500</b>	<b>\$ 1,520</b>	<b>\$ 79,599</b>	<b>\$ 106,619</b>

Changes in endowment net assets as of June 30, 2014 are as follows:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total Net Endowment Assets
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	25,500	-	75,000	100,500
Interest and dividends	-	370	1,095	1,465
Realized and unrealized gains and losses	-	1,342	3,946	5,288
Expenses	-	(192)	(442)	(634)
Balance, end of year	\$ 25,500	\$ 1,520	\$ 79,599	\$ 106,619



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Building Families:

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Building Families (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cashflows for the year then ended, and the related notes to financial statements and have issued our report thereon dated January 31, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Building Families' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schnarr & Company, LLP*

Fort Dodge, Iowa  
January 31, 2015